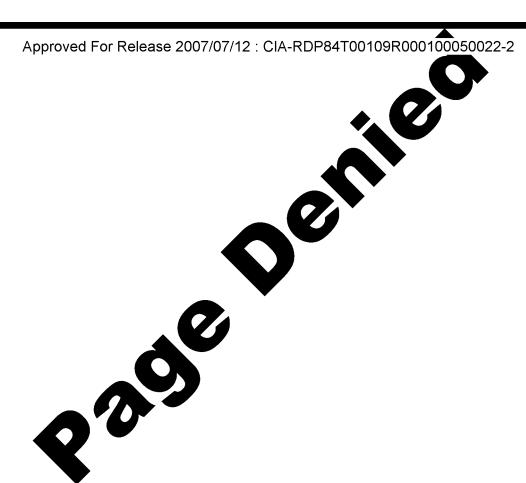
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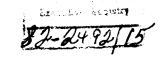
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## THE WHITE HOUSE WASHINGTON



### CABINET AFFAIRS STAFFING MEMORANDUM

| Vice President State Treasury Defense Attorney General Interior Agriculture Commerce Labor HHS HUD Transportation Energy Education Counsellor OMB | ACTION OF THE PROPERTY OF THE | E o oodddooddooddoodd | Baker Deaver Clark Darman (For WH Staffing) Harper Jenkins M. Wheeler Larry Kudlow Ed Gray | ACTION |       |
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**RETURN TO:** 

☐ Craig L. Fuller

**Assistant to the President** 

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for Cabinet Affairs

**Becky Norton Dunlop** 

Cabinet Affairs

Director, Office of

#### THE WHITE HOUSE

WASHINGTON

#### CABINET COUNCIL ON ECONOMIC AFFAIRS

June 8, 1982

8:45 a.m.

Roosevelt Room

#### AGENDA

- Versailles Summit (CM#234)
- 2. Wage Developments (CM#147)

# THE CHAIRMAN OF THE COUNCIL OF ECONOMIC ADVISERS WASHINGTON, D.C. 20506

June 4, 1982

MEMORANDUM FOR THE CABINET COUNCIL ON ECONOMIC AFFAIRS

From: Murray L. Weidenbaum

Subject: The Outlook for Wages

#### Introduction

Wages have risen at a considerably lower rate over the last twelve months than over the same period a year earlier. This slowdown is typical of wage behavior during recessions. As inflation falls and unemployment rates rise, the rate of increase in wages also declines. A crucial question is what will happen to wages as the economy emerges from the current recession. During previous recessions, the Federal Government adopted stimulative monetary and fiscal policies and wage growth rates eventually returned to previous peaks.

#### Wage Increases, Prices, and Unemployment

Increases in average hourly compensation, presented in Table 1, have slowed from 10.6 percent at the beginning of 1981 to 8.2 percent at the beginning of 1982. Other wage measures show similar patterns over the past year.

The slowdown in wage increases results primarily from two factors -- lower rates of increase in consumer prices and higher unemployment rates. The Consumer Price Index rose 10 percent during the twelve months ending in April 1981, but only 6.6 percent during the twelve month period ending in April 1982. Thus, workers' wages retained greater purchasing power while they grew less rapidly. The unemployment rate rose from 7.3 percent in April 1981 to 9.4 percent in April 1982, encouraging at least some workers to accept jobs at lower wages.

The decline in wage increases during the past year closely resembles what occurred in the 1974-1975 recession. From the third quarter of 1974, when unemployment began to rise sharply, to the end of 1975, when wage increases stabilized, growth in hourly compensation fell by 2.7 percentage points. The decline from the peak rate of wage growth in the first quarter of 1975 was 4 percentage points. So far during the current recession, the rate of wage growth has fallen by 2.4 percentage points from the peak reached in the first quarter of 1981.

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Table 1

#### WAGES, PRICES, AND UNEMPLOYMENT

|        |                                      | Compensation Per Hour 1     | Real Hourly Compensation 1,2 | Consumer<br>Price Index <sup>1</sup> | Unemployment<br>Rate     |
|--------|--------------------------------------|-----------------------------|------------------------------|--------------------------------------|--------------------------|
| 1      | 974-1975 R                           | ecession                    |                              |                                      |                          |
|        | 974:III<br>974:IV                    | 10.5%<br>10.9               | -0.8%<br>-1.1                | 11.5%<br>12.1                        | 5.6%<br>6.6              |
| 1<br>1 | 975:I<br>975:II<br>975:III<br>975:IV | 11.8<br>10.0<br>8.1<br>7.8  | 0.6<br>0.5<br>-0.5<br>0.4    | 11.0<br>9.7<br>8.7<br>7.3            | 8.2<br>8.9<br>8.5<br>8.3 |
| 1      | 981-1982 R                           | ecession                    |                              |                                      |                          |
| 1      | 981:I<br>981:II<br>981:III<br>981:IV | 10.6<br>10.1<br>10.1<br>9.3 | -0.6<br>0.3<br>-0.6<br>-0.2  | 11.2<br>9.8<br>10.9<br>9.6           | 7.4<br>7.4<br>7.4<br>8.3 |
| 1      | 982:1                                | 8.2                         | 0.7                          | 7.6                                  | 8.8                      |

Percent change from same quarter a year earlier.

Real hourly compensation is calculated as compensation per hour divided by the Consumer Price Index.

In view of the continuing moderation in inflation and the increase in unemployment since the first quarter of this year, it is likely that wage increases will decline further. The drop in the rate of wage increases during the current period provides welcome news on the inflation front. However, it does not indicate any change in the nation's labor markets unique to this recession.

#### Union Contracts

In addition to the cyclical forces that are dampening wage increases throughout the economy, certain industries face structural changes as well. These structural difficulties arise from (1) increased import competition, (2) deregulation, and (3) a long-run decline in demand for the industry's output. In response to these structural pressures, some unions have recently accepted cuts in nominal compensation. Examples include unions in the automobile, trucking, airlines, textiles, meat packing, and rubber industries.

These givebacks have received a great deal of publicity, but similar pay cuts are not common in industries not facing permanent declines in employment. In spite of high cyclical unemployment in the unionized sector of the economy, wage increases in union contracts signed so far this year have averaged 7.8 percent -- down from 9.3 percent during the same period last year. Settlements that provide for no wage increase are the exception, not the rule.

Most of the major union contracts coming up for negotiation during the remainder of the year, listed in Table 2, are not generally in industries which face long-term difficulties. For example, electrical machinery and aerospace have healthy future prospects despite current difficulties. Settlements in these industries are likely to exceed nation-wide averages.

Table 2

MAJOR CONTRACTS EXPIRING IN 1982

| Industry<br>Shipbuilding | No. of Workers<br>15,500 | <u>Month</u><br>June | Union<br>Ship-<br>building<br>workers  |
|--------------------------|--------------------------|----------------------|--|
| Electrical machinery     | 150,000                  | June, July,<br>Dec.  | IUE, IBEW                              |
| Autos (Chrysler)         | 124,000                  | Sept.                | UAW                                    |
| Aerospace                | 34,000                   | Nov., Dec.           | Machin-<br>ists and<br>Carpen-<br>ters |

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#### Conclusions

The current slowing of wage increases is consistent with previous periods of high unemployment and sharply declining inflation. History indicates that if price increases return to previous high rates, wage increases will as well. Good news on wage trends will only continue if the Administration and the Federal Reserve persist and succeed in their efforts to restrain inflation.

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